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Dear Emily

Carbon Emissions Reduction Target (CERT) 2008-2011 Supplier Guidance

Thank you for providing Scottish and Southern Energy with the opportunity to comment on Ofgem's draft proposals for administering the CERT 2008-2011.

We have attached a paper setting out our detailed response to the questions posed in the consultation document.

Our concern with the Energy Efficiency Commitment has been the level of burden placed on new activities and initiatives by the administration requirements of the scheme. This has led to a reluctance to develop innovative approaches to saving energy and instead to fall back on the limited range of measures which have acceptance.

CERT is likely to be even more complex, with ex ante credits being awarded to innovation measures. We are firmly of the view that Ofgem must ensure that CERT can be administered as simply as possible and that the administration procedure is as responsive as necessary.

For example, the monitoring requirements for EEC and CERT in some cases require us to survey thousands of customers in order to establish the Priority Group percentage and customer satisfaction. We believe that it should be possible to achieve robust statistical results with smaller samples and we urge Ofgem to seek expert advice to review this issue.

We note Ofgem's proposal in 3.50 to remove the distinction in savings between fuel types for all insulation and to replace it with a single weighted average saving across the domestic fuel mix. Whilst we understand the rationale for doing this, we feel that there could be some adverse effects on suppliers' activities in rural or hard to reach areas, particularly those that are not connected to the gas network. We suggest that one solution to this issue would be to create two carbon categories, the first to include gas, LPG and oil and the second to include coal and electricity.

If you would like to discuss any of the above or the attached, please do not hesitate to contact me.

Yours sincerely

Katherine Marshall
Regulation Manager

CERT 2008-2011 Supplier Guidance Consultation

Chapter 3. Qualifying Action

Question 1 – We propose to simplify the initial scheme notification procedure to involve the submission of the scheme notification pro forma only. This will be modified to capture the information about savings and cost contributions currently provided on the EEC scheme spreadsheet.

We welcome this approach as we consider the current procedure to be administratively burdensome and of limited value. We query however whether there is a need to provide a cost contribution for all schemes. For example, as there is already an established market for insulation and its associated savings it seems unnecessary to provide this information each time. We note that the cost contributions for novel technology will be of interest but urge Ofgem to ensure that there is a simple system to capture such information.

Question 2 – To reflect changes in the cold appliance market consultees are asked to consider whether we should approve just the A+ and A++ appliances, or whether we should accredit A-rated appliances based on a change in the market share resulting from a supplier's scheme.

We believe that Ofgem's first option is preferable as A rating is now almost standard. We have noticed that there has been growth in small or secondary fridges in recent years which should also be considered in the market share calculations because they are inefficient.

Question 3 – To reflect changes in the boiler market we propose that it is not longer appropriate to accredit sales for replacing B-rated with A-rated boilers.

We accept this approach.

Question 4 – In the absence of recent monitoring data, what would be an appropriate methodology for revising the Fridgesaver savings: a percentage reduction, an increase in the number of points to qualify, or an alternative? Suggestions are invited.

We query whether it would be worthwhile revising the Fridgesaver savings given that they represent a very small amount of savings in the overall scheme. To make these schemes more involved or harder to qualify for would further reduce their attractiveness. The savings come from replacing damaged items and therefore the efficiencies are probably not that far from what was seen ten years ago.

Question 5 – Are the proposals for accrediting CFLs in the light of the phase out of GLS lamps appropriate?

Yes they are appropriate. GLS lamps will be phased out in stages between now and 2016. It is our understanding that during this CERT period the higher wattage lamps will be phased out first. There is no legal requirement to phase out these lamps or remove them from the market. As there are only voluntary agreements in place with retailers the phase out might not be across the board. It is therefore appropriate for suppliers to continue to claim credits for CFLs.

Question 6 – Is the use of a declaration an appropriate way to ensure that savings from microgeneration are additional to those from other policies, e.g. the Merton rule?

We have some concerns with this approach. There is potential for each local authority in the country to have a variation of the Merton rule. We do not know whether the range of micro technologies under CERT and those used to meet Merton align.

In addition we are unclear who will be qualified to sign off the declaration and whether the council planning officer is the appropriate person given the inevitable dialogue between planning departments and developers to which suppliers are not party. A supplier's relationship is most likely to be with the developer. To have the CERT accreditation dependent on an agreement to which the supplier is not party is clearly not appropriate. For instance, the developer may agree to do affordable housing in order to satisfy planning objectives which may impact on the renewable target.

Question 7 – Is use of installers and products accredited under the BRE microgeneration certification scheme (UKMCS) the most appropriate way to ensure high quality microgeneration products are used and installations are carried out under CERT?

Yes, but we consider that there has to be an alternative otherwise UKMCS could be barrier if there is a need for a check by an approved installer. It is important to take account of the fact that some microgeneration products, for example solar kits, are or can be self-installed and therefore to use accredited installers only may be overly restrictive. This could potentially lock out part of the CERT market if credits are only available to accredited installers.

In addition, new developments in renewables would need to be approved in a timely manner to ensure that such high quality microgeneration products can be included by suppliers in their CERT activities. It should also be noted that UKMCS is still being developed and if other renewables are accredited under CERT UKMCS needs to evolve and keep up to date.

Question 8 – Comments are invited on the aspects of the EEC2 procedures relating to qualifying action and measures that we intend to keep the same. These are listed in appendix 3.

Additional Comments on Chapter 3

Determining carbon savings

In 3.10 Ofgem states that as far as possible it intends to use the measure lifetimes in Defra's illustrative mix to calculate lifetime savings. It would be extremely helpful if Ofgem could clarify the circumstances under which it might deviate from the Defra mix.

Additionality

We consider that the EST rating should be used for consumer electronic products.

Fuel switching

We believe that consideration should also be given to accreditation of schemes where the new fuel is biomass. Further guidance is required on the criteria that Ofgem would expect suppliers to provide in respect of additionality.

Insulation

We note Ofgem's proposal in 3.50 to remove the distinction in savings between fuel types for all insulation and to replace it with a single weighted average saving across the domestic fuel mix. Whilst we understand the rationale for doing this, we feel that there could be some adverse effects on suppliers' activities in rural or hard to reach areas, particularly those that are not connected to the gas network. We suggest that one solution to this issue would be to create two carbon categories, the first to include gas, LPG and oil and the second to include coal and electricity.

How will properties with older extensions e.g. 1960s be covered off on a m2 basis?

Chapter 4. Innovation

Question 1 – Ofgem can only approve a demonstration qualifying action if it is satisfied that suitable monitoring arrangements will be put in place to assess the effectiveness of the measure at reducing carbon emissions. Respondents are asked to consider the list in 4.3 and whether any other categories should be considered.

Question 2 – Consultees are asked to consider the format of the reports the suppliers should publish as part of their demonstration qualifying action.

We believe that this should be left open as it will inevitably evolve as we progress through CERT. It would be helpful if Ofgem could provide a timeline setting out how it intends to work through new technologies with some indicative response times. There are obvious benefits to ensuring that the process is streamlined. One observation is that the process can be very slow. In our experience it has taken some 18 months to process an application for air source heat pumps to gain accreditation.

Question 3 – Consultees are asked to consider the requirements for information in demonstration qualifying action submissions provided in Appendix 16, and are invited to comment on these proposals

Question 4 – Respondents are asked to consider the broad types of demonstration qualifying action listed in paragraph 4.6 and whether there are other categories which should be included.

Chapter 5. Priority Group Flexibility

Question 1 – Suppliers applying to reduce their Priority Group percentage are required to provide Ofgem with the information outlined under article 15(1). We propose to adapt the scheme notification pro forma so that suppliers can provide this information. Respondents are invited to consider whether this is the most appropriate way of dealing with these applications.

We would support the use of a separate proforma for this option.

With regard to how the supplier will achieve its carbon obligation if the application is approved, we consider that the onus is on the supplier to ensure that it can replace the volume through the able-to-pay. The supplier still has the overall obligation under CERT to deliver the carbon savings and therefore in our view it would be over-bureaucratic to have to illustrate this as well as part of the opt-out application process.

It is our understanding that the percentage reduction will be fixed but the supplier's total CER target could fluctuate with customer number changes. How will this be managed?

Ofgem should publish the translation factors as soon as possible to allow assessment of these projects. We assume that there is no differentiation between property types.

Additional Comments on Chapter 5

Submission of proposals

Could Ofgem please clarify whether the notification envisaged under 6.3 is logged as the date when the auto responder is received and that following this the supplier may start the scheme. We are uncertain as to whether notification may be made only at the start of the month or throughout the month. If notification may only be made at the beginning of the month this could have adverse consequences. At worst there could be a nine week delay starting a scheme. In addition there could be an increased administrative burden on Ofgem as workload would be concentrated at particular times of the month. We are also concerned that it could lead to sub-optimal applications from suppliers.

Chapter 7. Reporting and compliance

Question 1 – Where a supplier has used the Priority Group flexibility option, we propose that the fuel poverty measures are treated as a scheme for administrative purposes and a final report is submitted on the pro forma in the same way as a conventional scheme. Comments are invited on this.

Question 2 – Consultees are asked to consider the changes proposed to the data which suppliers should submit on a quarterly basis, outlined in 7.19. Are these changes appropriate?

We consider Ofgem's proposal to extend quarterly reporting to include other measures to be unnecessary and we question whether the additional burden on suppliers will actually be of benefit to Ofgem. As around 80% of CERT activities will be realised via cavity wall and loft insulation we believe that the existing reporting ought to provide a good enough indication of suppliers' performance under CERT.

Question 3 – We invite comments on the proposal to require suppliers to bank two thirds of their in-progress activity by September 2010. This will enable a manageable flow of data throughout the programme.

Ofgem has made unclear statements in 7.1 and 7.3. In 7.1 Ofgem states that the carbon saving accredited to carryover from EEC2 will be based on the CERT methodology, whereas in 7.3. it states that it will use the carbon coefficients set out in Schedule 3 of the draft Order.

In 7.2 we wish to clarify whether Ofgem expects only intention to make use of the carryover from EEC2 to be notified by 30 April 2008 or if it is the full application, including the spreadsheet proforma. If the latter is the case we suggest that the notification deadline is extended by at least a month, i.e. to 31 May 2008. This would enable suppliers to be certain of the credits that have been banked for the final year before they make the carryover application. In addition, there are still administrative processes to be completed once a scheme has been closed down.

We do not believe that Ofgem should overly restrict how frequently suppliers bank their completed activity on schemes as proposed in 7.6. This would appear to be unnecessarily bureaucratic. The cut off date of 1 September 2010 seems arbitrary and we are unclear how schemes that finish in the preceding few months would be treated.

Chapter 8. Monitoring

Question 1 – Consultees are asked to consider whether the proposal to reduce the requirement on suppliers to monitor free CFL utilisation from 1 per cent to a maximum of 1,000 is appropriate.

We wholeheartedly support his approach which will reduce the administrative burden on suppliers.

Question 2 – We propose to use the same level of monitoring for microgeneration as used for energy efficiency measures (5 per cent technical and 1 per cent customer satisfaction). Consultees are asked to comment on whether this is a suitable level.

Question 3 – Respondents are asked to consider the technical monitoring questions for microgeneration proposed in Appendix 7 and suggest additions or amendments as appropriate.

As a more general point we suggest that the standard technical monitoring questions should be revised. Inspections are carried out by a third party who typically liaises with the householder and not the installer. We believe that some of the questions, which are asked of householders, are difficult to answer. For example, in relation to biomass there is a question about whether there is a “local” supply of fuel.

Question 4 – comments are invited on aspects of the EEC2 procedures relating to monitoring that we intend to keep the same. These are listed in Appendices 4 and 5.

We consider that suppliers ought to have suitable controls and procedures in place to ensure all major failures are addressed and corrected as appropriate.

The monitoring requirements for EEC and CERT in some cases require us to survey thousands of customers in order to establish the Priority Group percentage and customer satisfaction. We believe that it should be possible to achieve robust statistical results with smaller samples and we urge Ofgem to seek expert advice to review this issue.

*Scottish and Southern Energy
13 September 2007*